

VZCZCXRO3594
PP RUEHFL RUEHKW RUEHLA RUEHROV RUEHSR
DE RUEHBM #0140/01 0521128
ZNY CCCCC ZZH
P 211128Z FEB 08
FM AMEMBASSY BUCHAREST
TO RUEHC/SECSTATE WASHDC PRIORITY 7942
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RUEHAH/AMEMBASSY ASHGABAT 0035
RUEHTA/AMEMBASSY ASTANA 0007
RUEHKB/AMEMBASSY BAKU 0032
RUEHSI/AMEMBASSY TBILISI 0208

C O N F I D E N T I A L SECTION 01 OF 03 BUCHAREST 000140

SIPDIS

SIPDIS

DEPT FOR EUR - JGARBER, MBRYZA
DEPT FOR EEB - SMANN, SGALLOGLY
NSC FOR LCATIPON
STATE PASS TO USTDA DSTEIN
USDOC FOR ITA/EUR/OEERIS/CEED/KNAJDI
ENERGY FOR TTILLER

E.O. 12958: DECL: 02/15/2018
TAGS: [ENRG](#) [ECON](#) [EINV](#) [PGOV](#) [RO](#)
SUBJECT: ROMANIA: ROMPETROL'S DINU PATRICIU ON ENERGY IN
THE BALKANS AND BLACK SEA

REF: A. 07 BUCHAREST 985
[1](#)B. 07 BUCHAREST 1008

Classified By: Econ Counselor Blair LaBarge for reasons 1.4 (b) and (d)
.

SUMMARY

[1](#)1. (C) In a meeting with econoffs on February 6, Dinu Patriciu, Romania's richest man and CEO of the Rompetrol oil company, discussed his views on regional energy security and the announced deal between Gazprom and Serbia to sell a 51% stake in NIS, the Serbian state-owned oil company. According to Patriciu, Gazprom's deal with the Serbs was no sure thing and Rompetrol has not given up hope of acquiring NIS. He dismissed the furor over South Stream and Nabucco, saying Europe should devote its energies to developing LNG capacity if it wished to escape reliance on Russia. Patriciu, a controversial figure on the Romanian scene, vaulted to the top of the list of Romania's wealthy when he sold 75 percent of Rompetrol to Kazakhstan's KazMunayGas (KMG) last August. End Summary.

PATRICIU ON SERBIA'S NIS

[1](#)2. (C) In a previous meeting with emboffs last August following the sale of Rompetrol to KMG, Patriciu had expressed confidence that Rompetrol/KMG's bid would prevail in the privatization of Serbia's state-owned oil company NIS (see reftel). Synergies between Rompetrol and NIS made the most market sense and rendered the asset more valuable to Rompetrol than competitors. According to Patriciu, combining Rompetrol's Constanta operations and NIS' refineries would forge significant links in the proposed Pan-European Oil Pipeline (PEOP) from Constanta to Trieste, and would encourage KMG to throw its weight and money behind the project.

[1](#)3. (C) While the announced agreement on January 25 between Belgrade and Gazprom complicated matters, Patriciu claimed to be in contact with "the good guys" in Serbia, and asserted that the preliminary deal with Gazprom (GP) is not a sure thing. "The game isn't over yet," particularly following Serbian President Tadic's election victory, he said. Patriciu claimed his direct contacts within GP and his

corporate ears in Moscow indicate that the Russians are not sure they have a deal either. Patriciu alleged he knew Gazprom officials well from Rompetrol's years of doing business in Russia (NOTE: He made no particular reference, however).

NABUCCO AND EUROPEAN ENERGY SECURITY

14. (C) Responding to the January 25 Russia-Bulgaria understanding on South Stream, Patriciu claimed Nabucco is too early in its developmental stage and involves too many inter-governmental agreements to ward off competition. Gazprom is encircling Nabucco, he said, can act quickly, and is on the verge of strangling the project. Patriciu acknowledged that the involvement of Germany's RWE and other potential partners do increase Nabucco's odds, but Nabucco requires the involvement of a major like BP, Shell or Esso to be realistic, he said.

15. (C) According to Patriciu, Europe is maneuvering into a trap of over-reliance on Russia. South Stream may not be an economically attractive project, but it will happen because it is "consistent with Russian strategy for 200 years," namely to dominate the Balkans and the Black Sea at the expense of Turkey, he posited. Russia's own burgeoning domestic demand and its exorbitant energy inefficiency are colliding with declining production, and therefore available gas for export will continue to decline as well. Putin knew this early, Patriciu said, and this is why he moved to consolidate the sector in the Kremlin's hands to try to address the pending crisis. However, even after the presidential election in Russia, Putin will not be able to reform inefficient industries or implement the necessary

BUCHAREST 00000140 002 OF 003

price hikes to curb demand. While the Kremlin is trying to hide it until after elections, much of the sub-prime derivatives are in the hands of Russian capitalists or Russian banks and the economy is heading into troubled waters, Patriciu claimed.

LNG AS A SOLUTION

16. (C) In contrast with Nabucco and other pipeline projects, Patriciu was much more bullish on LNG as an answer to European energy security. Countries like Spain have already begun to develop a network of LNG terminals, and the same could be repeated in the Mediterranean and Black Seas, he said. Some projects are already under consideration on the eastern side of the Black Sea, and Constanta would be a natural counterpart. Rompetrol is interested in pursuing this idea, though independently for now, as KMG has yet to show much interest. LNG sources would have to come from within the Black Sea, as the Turks are "not likely to allow a bomb through the middle of their city," Patriciu claimed. The EU should create incentives for LNG development rather than pursue pipelines, as LNG would allow the development of a spot-market in the long term, putting gas trading on a more commercial basis. (NOTE: USTDA is considering funding a feasibility study for the development of an LNG Terminal in Constana with a U.S. partner.)

PATRICIU ON THE DOMESTIC SCENE

17. (C) Patriciu, Romania's richest person with an estimated wealth of around 3 billion USD, is a longtime presence on Romania's political scene. When asked how prepared Romania is to defend its own interests, he commented that Romania's energy security strategy, as with all other aspects of policy, is complicated by the unhealthy political tensions between President Traian Basescu and Prime Minister Calin Popescu-Tariceanu. The Romanian National Bank (BNR) is the only entity that seems concerned with the health of the

economy and is reacting rationally, he said. "Everything is hanging on BNR right now, and that's not good."

18. (C) Patriciu went on to observe that Romania has many tools at its disposal to address energy security, but they require political decisions that the country's current leadership is ill-equipped to make. For one, Romanian geology and its numerous depleted wells make ideal gas storage sites, he said. State-owned gas producer Romgaz has over 200 licenses on depleted wells that could be let for public tender on a transparent basis for gas storage. Numerous companies, big or small, domestic and foreign, would be interested, he thought. The GOR has said it is afraid Russia would dominate gas storage, but Gazprom could not possibly buy up all the capacity, according to Patriciu. Even if they could acquire 20 percent of storage capacity, they could not control the market. Romanian gas storage would allow the purchase of cheaper gas during the summer and would lessen the cost for Romanian consumers. Patriciu asserted that Gazprom is obligated to sell contractually. However, in his opinion, development of gas storage would have to wait until after national elections in Romania, as the current government does not seem capable of making a decision. State-owned Romgaz is a "dinosaur with politburo leadership" that lacks the capacity to develop projects itself. The Government's brainchild of creating a new national energy company out of scattered entities still in state hands will fail for this same reason. Romanian SOEs are ineffective and inefficient and are a drag on economic development, said Patriciu.

PATRICIU ON ROMPETROL'S DEVELOPMENT

19. (C) Commenting on Rompetrol's plans following its acquisition by KMG, Patriciu noted a project underway to build an off-shore oil terminal at Midia, just north of Constanta and close to their existing refinery. The terminal would have an initial capacity of 12 million MT and could serve as a consolidator for smaller Black Sea oil tanker shipments, maximizing tanker size through the Bosphorus.

BUCHAREST 00000140 003 OF 003

Patriciu claimed the Constanta terminal would reduce the feasibility of the Burgas-Alexandroupolis Bosphorus bypass, as the consolidator option will be far cheaper and more simple. The terminal would also serve as a bridgehead for PEOB, should it come to fruition.

110. (C) According to Patriciu, KMG is turning over its trading business to Rompetrol, which is developing a Mediterranean and Black Sea-based shipping network for Kazakh oil on top of its existing network. Patriciu wants to modernize the trading of oil from the Former Soviet Union, a process which he felt was set back by companies like Marc Rich's Glencore, which primed the pumps of corruption, insulated the markets from competition, and did not bother to build efficient organizations and infrastructure.

111. (C) Patriciu expressed hopes that Rompetrol's own corporate culture would have a positive effect on KMG. The company is working with KMG to improve and modernize its internal operations, and Patriciu is sending a team of senior management to train KMG managers on the methods by which Rompetrol modernized its own operations. Kazakh President Nazarbayev sent a number of young Kazakhs to the UK and U.S. for MBAs, and the culture is improving. However, Patriciu said, KMG is still a state-owned company dominated by a dictator. He related a story from the first joint board meeting of Rompetrol and KMG, where one of the old directors kept addressing all present as "tovarish" (comrade).

COMMENT

112. (C) Dinu Patriciu is a shrewd operator and observer of

the domestic and regional scene, and built his business on the back of well-timed moves and well-placed connections. When last we saw Patriciu in August, he seemed confident of Rompetrol's eventual take-over of NIS. While he has not given up on the prospect, it is clear he is focusing more now on developing Rompetrol's trading capacity, where he sees the company's future. As for PEOB, by far the most expensive Bosphorus bypass option on the table, Patriciu indicated its future may be tied to whether Rompetrol/KMG can be ultimately successful in its bid for Serbia's state-owned oil company NIS. On the domestic front, Patriciu -- a pillar of the Liberal Party (PNL), major backer of the PM and traditional nemesis of the President -- had little nice to say of either faction and is clearly looking forward to the elections to provide a fresh start and more effective governance. This may indicate a shift in support to the Social Democrats (PSD), with whom he's dabbled in the past. Patriciu's deep pockets will be a major advantage for whoever he backs in this year's Parliamentary elections.

TAUBMAN